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IN THE
Supreme Court of the United States

OCTOBER TERM, 1976.

No. 76-390

ICI AMERICA INC.,

Petitioner,

vs.

MORAINE PRODUCTS,

Respondent.

**BRIEF OF RESPONDENT MORaine PRODUCTS
IN OPPOSITION TO THE PETITION
OF ICI AMERICA INC. FOR
WRIT OF CERTIORARI.**

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STATEMENT OF THE CASE.

Only minimal facts relevant to ICI-Atlas' Petition are found in its Statement of the Case. Other relevant facts are found in Moraine's Cross-Petition (No. 76-391) at pp. 2-6. A recitation of additional facts here is necessary, however, in view of the misleading contentions of ICI-Atlas (ICI-Atlas Petition, pp. 14, 15-16) that it acted in the public interest in bringing suit to invalidate the Rider patent. These facts constitute findings made by the trial court in that suit, *Atlas Chemical Industries, Inc. v. Moraine Products, Inc.*, 350 F. Supp. 353, 357-58 (E. D. Mich. 1972), as follows.

"In March 1961, Atlas and Plough learned that Leonard Bergstein had been marketing MPS containing finely divided silica product in Midland, Michigan, to relieve flatulence in humans. . . . As of January 1963, Atlas was fully aware of the possibility of public use of the product by Bergstein in 1957 for the purposes outlined in the claims in the Rider patent. . . . Atlas never told Moraine or the patent office what Atlas knew about the Bergstein use.[*]

"Atlas was at this time the holder of an option to become an exclusive licensee under the Rider patent, and yet on January 31, 1962, Atlas stated in an internal memorandum, 'We have serious doubts that a valid Rider patent will issue. This is in part because of certain information regarding prior uses that we have that is not available to the patent office.'

"After Rider won the interference suit against May, it became obvious that a patent would soon issue to Rider. Atlas, the holder of the exclusive license under such a patent, indicated in an internal memorandum, 'We want to play Moraine and Plough off against each other in an effort to get the royalties reduced.' After exercising its option, an option that cost Atlas nothing because it could subtract the payments to Moraine from the payments to Plough, Atlas demanded that Moraine protect the patent by bringing infringement action against Plough. . . . Atlas insisted that Moraine was under an obligation to proceed diligently in the protection of the patent. Atlas insisted that Moraine had no right to settle the lawsuits against the alleged infringers without Atlas' written approval.

"Finally, just before Atlas filed this suit against Moraine [to invalidate the Rider patent], Atlas stopped paying royalties to Moraine under the license agreement. This step was taken shortly after Atlas had renegotiated its agreement with Plough to reduce the royalty payments. . . . The Atlas president explained this by indicating that until the agreement for royalties to Plough could be reduced to correspond to the amounts actually being paid to Plough, it was not in the interest of Atlas to tackle Moraine and

* The application for the Rider patent was pending in the U. S. Patent Office from 1959 to 1969. Its issuance was delayed by a long, complex patent interference proceeding ultimately decided in Rider's favor by a U. S. District Court.

to have the Moraine patent declared invalid. The president indicated that so long as it didn't cost Atlas anything, there wasn't any point in undertaking a lawsuit to defeat the patent.

"The record in this case is without dispute, that as long ago as February 1, 1963, the plaintiff [Atlas] or its predecessor was encouraging the defendant [Moraine] in connection with its prosecution of its patent having knowledge of the fact that the patent was defective because of prior use. In spite of the fact that Atlas had knowledge of the prior use, it exercised its option under a license agreement obtaining the right to enforce the patent against the competitors of Atlas. The defendant therefore had to defend all infringement suits for and on behalf of Atlas, all during a time when Atlas had knowledge of the fact that the patent was invalid. Atlas deliberately took steps which it knew or should have known would compel Moraine to enforce the patent against the only significant competition. The record is clear that the conduct of Atlas during this period was unconscionable, contending on the one hand that it wanted no part in the enforcement of the patent because of doubts Atlas had as to its validity, yet compelling the defendant to diligently enforce the patent against its competition. The action of Atlas was a disdain of the public interest. . . ."

* * * * *

QUESTION PRESENTED.

Can a patent owner who, as a result of antitrust violations by the defendants, was deprived of royalty income from potential licensees during the time the patent was presumed valid, recover the lost royalties as damages from the defendants?

* The trial court awarded Moraine, as damages, the expenses Moraine had incurred in prosecuting the Rider patent and enforcing it against infringers at ICI-Atlas' demand. On appeal by ICI-Atlas, the Sixth Circuit reversed the award of damages solely on the ground that Moraine had not prayed for damages in a formal pleading, but expressly declined to comment on the trial court's findings, quoted above, that ICI-Atlas was guilty of misconduct, although ICI-Atlas expressly appealed those findings. *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F. 2d 1, 7 (6th Cir. 1974).

ARGUMENT.

Introduction.

That part of the Seventh Circuit's decision to which ICI-Atlas directs its petition involves no unsettled issues of law or conflicts with decisions of this Court or other Courts of Appeals. The issues are essentially factual. All Courts of Appeals which have considered the question have held that the owner of a patent which has been declared invalid is entitled to retain, or recover from licensees, royalties received or accrued prior to the time that patent was declared invalid, and that to hold otherwise would be contrary to the policy expressed by this Court in *Lear, Inc. v. Adkins*, 395 U. S. 653 (1969).*

As a matter of statutory right, where a party has been injured by the antitrust violations of the defendants he is entitled to recover from those defendants damages which will compensate for that injury. 15 U. S. C. § 15.

Pursuant to these basic, well settled legal principles, the Seventh Circuit has held that (1) if Moraine can prove it would have received royalties from potential licensees under the Rider patent during the time that patent was presumed valid and (2) if Moraine can prove it was deprived of these royalties by the antitrust violations of the defendants, then Moraine is entitled to recover, as damages from the defendants, the royalties it would have received but for those antitrust violations.**

As hereinafter shown, there is nothing unusual or startling about such a holding so as to justify the granting of ICI-Atlas'

* See cases cited at page 5, *infra*.

** Both the District Court and Court of Appeals found that Moraine had made a *prima facie* case of proving these two factual issues. The District Court, however, held that, as a matter of law, there was no violation of the antitrust laws under either the *per se* doctrine or the "rule of reason", and granted a directed verdict against Moraine. On appeal, the Court of Appeals affirmed as to the *per se* issue but reversed and remanded for trial on the "rule of reason" issue. The *per se* issue is the basis of Moraine's Cross-Petition for certiorari, No. 76-391.

Petition. Actually, that Petition reveals (at pp. 14-16) a distractive attempt by ICI-Atlas to sanctimoniously cloak itself in a righteous mantle of "public interest" in order to camouflage and conceal the tremendous monetary success enjoyed by it and those with whom it conspired to monopolize the entire immense U. S. market for the only product found by the Food and Drug Administration to be effective in the treatment of flatulence (gas) in humans (Petition of ICI-Atlas, *App.* p. 29a). As noted above (pp. 1-3) the "disdain of the public interest" shown by ICI-Atlas and the hypocrisy of its present position have been so glaringly revealed in *Atlas Chemical Industries, Inc. v. Moraine Products, Inc.*, 350 F. Supp. 353, 357-58 (E. D. Mich., 1972) as to make further comment redundant.

The Decision Below Is Consistent with and Not in Conflict with Decisions of Other Courts of Appeals.

The Third, Sixth and Seventh Circuits have all held, in other cases, that the owner of a patent which has been declared invalid is entitled to retain, or recover from licensees, all royalties received or accrued prior to the time the patent was held invalid. *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, 530 F. 2d 508, 513 (3d Cir. 1976), *cert. denied* 454 U. S. L. W. 3250 (Oct. 4, 1976), *PPG Industries, Inc. v. Westwood Chemical Inc.*, 530 F. 2d 700, 704-708 (6th Cir. 1976), *cert. denied* 45 U. S. L. W. 3250 (Oct. 4, 1976); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 465 F. 2d 1253 (6th Cir. 1972) (Troxel I); *Troxel Mfg. Co. v. Schwinn Bicycle Co.*, 489 F. 2d 968, 973 (6th Cir. 1973) (Troxel II), *cert. denied* 416 U. S. 939 (1974); *Kraly v. National Distillers and Chemical Corp.*, 502 F. 2d 1366, 1372 (7th Cir. 1974); see *Ransburg Electro-Coating Corp. v. Spiller & Spiller, Inc.*, 489 F. 2d 974, 978 (7th Cir. 1973).*

* The cut-off date applied by these courts in permitting collection of royalties as damages is the date on which the patent was declared invalid, unless the patent was declared invalid in a suit involving a

(Continued on next page)

No Court of Appeals has ruled otherwise.

ICI-Atlas, in arguing that "it would indeed be anomalous to hold that its [Moraine's] antitrust rights have some value, when it is clear that its patent rights have none," (Petition of ICI-Atlas, p. 9) concedes that the value of Moraine's antitrust rights parallel the value of Moraine's patent rights. As to the latter, the Seventh Circuit has held (Petition of ICI-Atlas, *App.*, pp. 31a-32a):

"... it cannot be said that there was no such value during the period of the presumptive validity of the patent. * * * While Moraine was the holder of a presumptively valid patent, it could legally entertain the expectation . . . of receiving royalties from licensing arrangements which in final analysis are agreements in which the licensee is purchasing the right to be free from infringement litigation, which Moraine did have to sell during the period of validity."

The same rationale has been expressed by the Sixth Circuit in *Troxel I*, *supra*, 465 F. 2d at 1260.

The case authority relied on by ICI-Atlas does not support the argument that, because its patent has been declared invalid, Moraine has not been injured.

Bulldog Electric Products Co. v. Cole Electric Products Co., 148 F. 2d 792 (2d Cir. 1945) does not hold that damages may not be recovered for an injury occurring during the period when the patent was presumed valid. The court there merely ruled that the patentee may not set up the infringer's antitrust violation as a defense to a charge of invalidity.

(Continued from preceding page)

licensee, in which case the cut-off date on royalties owed by that licensee under his license agreement was the date on which the licensee took some affirmative step to challenge the validity of the patent. *American Sterilizer Co. v. Sybron Corp.*, 526 F. 2d 542, 548 (3d Cir. 1975); *PPG Industries Inc. v. Westwood Chemical, Inc.*, 530 F. 2d 700, 706 (6th Cir. 1976); but see *Kraly v. National Distillers and Chemical Corp.*, 502 F. 2d 1366, 1372 (7th Cir. 1974) (licensee who challenged validity is also liable for unpaid royalties for so long as it enjoyed benefits of license while challenging validity).

This case is not, as ICI-Atlas claims, a situation where "a claim of patent invalidity triggered off a countering claim by the patentee of antitrust violation" such as in *SCM Corp. v. Radio Corp. of America*, 407 F. 2d 166 (2d Cir. 1969), *cert. denied* 395 U. S. 943 (1969). In *SCM* the court stated at 407 F. 2d 170:

"... loss of royalties [by RCA] . . . is not an injury . . . sustained by reason of [SCM's] antitrust violations. This is an injury . . . suffered because [SCM] challenged [RCA's] patents. . . ."

Here, Moraine's injury is directly attributable to and based entirely upon the conspiracy to eliminate licensees who would have paid Moraine royalties *before* its patent was invalidated. ICI-Atlas' validity challenge had nothing to do with *that* injury.

Jones Knitting Corp. v. Morgan, 244 F. Supp. 235 (E. D. Pa. 1965) *rev'd on other grounds*, 361 F. 2d 451 (3rd Cir. 1965) is likewise inapposite for it merely expressed, in another fashion, the policy of encouraging patent validity challenges. That portion of the decision quoted by ICI-Atlas referring to "unjust enrichment" is obviously no longer correct in view of post *Lear v. Adkins* rulings which have unanimously denied licensees' attempts to recover, on the grounds of unjust enrichment, royalties paid to the licensor while the patent was presumed valid (see cases cited at p. 5, *supra*).

Martin v. Phillips Petroleum Corp., 365 F. 2d 629 (5th Cir. 1966), *cert. denied* 385 U. S. 991 (1966) is not a patent case. It is cited by ICI-Atlas in a strained attempt to improperly analogize an invalid patent with an invalid contract. The facts of *Martin* are somewhat complex, but suffice it to say the plaintiff there was claiming that the "property" to which his injury related was an oral option. The court there found that an oral option was a nullity under the Louisiana Statute of Frauds and therefore plaintiff had not been injured by defendants' alleged violation of the antitrust laws (365 F. 2d at 634).

Such an oral option is not analogous to the "property" exemplified by the Rider patent here. The Rider patent was anything but a nullity. It generated substantial royalty income for Moraine before it was declared invalid.* It is a fact question for the jury as to whether the Rider patent would have generated additional income from prospective competitors of Atlas who desired a license as protection against an infringement suit brought in good faith but who were foreclosed from the market by Atlas and its co-conspirators.

Other cases, cited by ICI-Atlas (Petition, p. 12) as paralleling the *Martin* case are inapposite for the reasons discussed above in connection with *Martin*.

Blonder-Tongue v. University of Illinois Foundation, 402 U. S. 313 (1971), from which Atlas quotes dicta out of context (ICI-Atlas' Petition pp. 8-9), had nothing to do with the issue Atlas raises here. *Blonder-Tongue* merely held that the patentee of a judicially invalidated patent who subsequently sued a third party for infringement of that patent was collaterally estopped to re-adjudicate the issue of validity. The right of a patentee to retain or recover license royalties accruing before the patent was invalidated (the issue here) was not even mentioned in *Blonder-Tongue*.

It is axiomatic that where, as here, the patentee is prevented, by the misconduct of the conspirators, from acquiring, collecting and retaining such royalties from potential licensees who were willing to pay them, the patentee has a cause of action against the conspirators. This is no different in substance than the cause of action which arises when the antitrust violations of conspirators, generally, prevent another from making sales or otherwise acquiring income.

* A suit brought by Moraine's licensee to recoup these royalties was rejected in *Atlas Chemical Industries, Inc. v. Moraine Products*, 509 F. 2d 1, 8 (6th Cir. 1974).

The Seventh Circuit Did Not Decide an Important Federal Question in a Way Which Is in Conflict with Any Decision of This Court.

Contrary to ICI-Atlas' argument (ICI-Atlas Petition, pp. 13-16), the decision below by the Seventh Circuit is not in conflict with and does not frustrate the policies laid down by this Court in *Lear, Inc. v. Adkins*, *supra*, but, rather, furthers them. The argument which ICI-Atlas makes here has been made to all three Courts of Appeals which have considered the question of whether a patent owner can retain or recover royalties which accrued before the patent was declared invalid, and all those courts have held that allowing the patent owner to recover would further the *Lear* doctrine because it would encourage an early and expeditious challenge by a licensee to the validity of the patent. *Troxel I*, *supra*, 465 F. 2d at 1257 (6th Cir.); *Ransburg*, *supra*, 489 F. 2d at 978 (7th Cir.); and *Zenith*, *supra*, 530 F. 2d at 513 (3d Cir.). In directly rejecting the erroneous interpretation of *Lear* made here by ICI-Atlas, the several Courts of Appeals have followed the rationale of the Sixth Circuit in *Troxel I*, 465 F. 2d at 1257:

"[S]uch an interpretation of *Lear* would make it advantageous for a licensee to postpone litigation, enjoy the fruits of his licensing agreement, and sue for repayment of royalties near the end of the term of the patent. * * * Such an interpretation of *Lear* would defeat one of the expressed purposes of the court [sic] in announcing the decision."

ICI-Atlas' Petition Does Not Involve an Important Question of Federal Law Which Has Not Been But Should Be Settled by This Court.

Essentially the same question presented here by ICI-Atlas has, on two previous occasions, been presented to this Court which did not consider the question sufficiently important or unsettled to grant certiorari. *The Troxel Manufacturing Company v.*

Schwinn Bicycle Company, No. 73-1276 (*Troxel II*), cert. denied, 416 U. S. 939 (1974); *Zenith Laboratories, Inc. v. Carter-Wallace, Inc.*, No. 75-1742, cert. denied 45 U. S. L. W. 3250 (Oct. 4, 1976). In both of those previous petitions it was unsuccessfully argued, as ICI-Atlas argues here, that it was contrary to the policy of *Lear, Inc. v. Adkins*, supra, to permit the owner of an invalid patent to retain or recover royalties accrued before the patent was declared invalid.

Another question in the same general subject area (recovery of royalties on an invalid patent) was unsuccessfully presented to this Court in *Westwood Chemical, Inc. v. PPG Industries, Inc.*, No. 75-1658, cert. denied 45 U. S. L. W. 3250 (Oct. 4, 1976). Again, this Court did not consider that subject area sufficiently important to grant certiorari.

**The Question Presented by ICI-Atlas Has Virtually
No General Application.**

The facts surrounding the role played by ICI-Atlas in the present case are so peculiar to this case that any determination of the question presented here by ICI-Atlas can have virtually no general application to the patent-antitrust law.

Not only was ICI-Atlas a licensee under an improvement patent (Rider), but also, ICI-Atlas was an exclusive licensee under the dominant patent (Feinstone) with the right to veto other licensees and one who, in concert with the dominant patent's licensor, engaged in anti-competitive conduct which had the direct and foreseeable effect of injuring the improvement patent's licensor (Moraine). In addition ICI-Atlas, while secretly believing the Rider patent to be invalid, demanded that Moraine enforce the Rider patent against the only competitors of ICI-Atlas,* in order to enhance ICI-Atlas' position in an already monopolized market.

* ICI-Atlas' sole competitors were Plough, the licensor of the dominant patent, and Block Drug Co. the only other licensee Atlas and Plough had permitted under the dominant patent.

Contrary to ICI-Atlas' assertion, conferring standing to sue here will not permit "a holder of an invalidated patent to initiate or maintain suits against alleged infringers" (ICI-Atlas Petition, p. 8). The cause of action here is not even remotely based on patent infringement. Rather, it is based upon a Sherman act violation and is directed at an antitrust violator which used its position as licensee under both the dominant and improvement patents to prevent competition. There is no basis for ICI-Atlas' assertion that the maintenance of this suit will serve as an "inducement for patentees to delay and stretch out the proceedings challenging their patents" (ICI-Atlas Petition, p. 13). The exercise of judicial supervision could be expected to minimize any such dilatory tactics. But, in any event, the remote hypothetical possibility of such an occurrence in some fictitious future action based upon patent infringement is no reason to prohibit the antitrust action here.

In a classic non-sequitur, ICI-Atlas first notes that it was once a licensee who successfully challenged the validity of the Rider patent and then, in *in terrorem* fashion, argues that, therefore, to subject Atlas to a private antitrust suit here would discourage other licensees generally from challenging the validity of patents (ICI-Atlas Petition, p. 16). However, the only licensees who would (and should rightfully) be concerned with the decision of the Seventh Circuit below are those who have violated the antitrust laws to the detriment of their licensor, and we fail to see how exposure to antitrust liability would make the licensee less willing to challenge the patent involved. To the contrary, under the decision of the Seventh Circuit, below, it would be in the best interests of the licensee-antitrust violator to expeditiously challenge the validity of the patent because the earlier the date on which the patent is invalidated, the shorter the period for which the antitrust violator is liable for damages resulting from royalties lost by the licensor during the period the patent was presumed valid.

Merely because it eventually suited the selfish interests of ICI-Atlas to challenge the validity of the Rider patent cannot

immunize ICI-Atlas from liability for antitrust violations it committed before the Rider patent was declared invalid.

CONCLUSION.

It staggers credulity that ICI-Atlas should masquerade its conduct in connection with the eventual invalidation of the Rider patent as an act taken in the "public interest" (ICI-Atlas Petition, pp. 14, 15-16) when the very court which declared the Rider patent invalid, found that:

"... the conduct of Atlas during this period was unconscionable. . . . The action of Atlas was a disdain of the public interest. . . ." (*Atlas, supra*, 350 F. Supp. at 358).

ICI-Atlas does not present any valid reason for granting its petition, either a reason traditionally accepted as a basis for granting petitions, or otherwise. Accordingly, the petition of ICI-Atlas should be denied.

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